

FINANCE COMMITTEE MEETING
April 20, 2020 – 6:15 PM

Present: Councilwoman Meany, Councilman Pelunis, Councilman Zelwin, Director Rubino, Mayor Kraus, Director Drsek, Director Gibbs, Director Frankel, Director Shaker, Director Solanics, Director Stolarsky, Director Sullivan, Councilman Bentley, Councilman Kotora, Councilman Russo, Councilman Shimits, Chief Tonelli, Chief Vedder, Mr. Parker

Councilman Zelwin presided

APPROVAL OF MINUTES

Motion by Councilwoman Meany, second by Councilman Pelunis to approve the minutes of March 16, 2020 as submitted.

ROLL CALL: AYE: Meany, Pelunis, Zelwin
 NAY: None

Motion Carried

ITEMS REQUIRING LEGISLATION

1. AUTHORIZING THE PAYMENT OF AMOUNTS DUE FOR WHICH THE FINANCE DIRECTOR HAS ISSUED THEN AND NOW CERTIFICATES

Director Rubino stated there are 5 items that were \$3,000 or more and stated all were in the budget and paid for with a purchase order.

Councilman Pelunis motioned to have legislation prepared approving Then and Now Certificates as noted on the memo to the Finance Committee dated April 14 in Exhibit A on first reading and under emergency. Second by Councilwoman Meany.

ROLL CALL: AYE: Meany, Pelunis, Zelwin
 NAY: None

Motion Carried

CORRESPONDENCE

- Budget Updates Related to Forecasted Economic Conditions

Councilman Zelwin stated he had spoken to several people within Council and informed all members that Director Rubino was going to be discussing the memo he released regarding the financial impacts of the Covid-19 outbreak and the City budget. Councilman Zelwin had also spoken to some of the City Directors who stated they had questions so all Council members and Directors were invited to attend this meeting. Councilman Zelwin asked Director Rubino to review his memo in detail as this is a very important topic.

Director Rubino stated the memo explains details of revenue loss by category. He will also discuss the Operating Budget. An economic downturn is already starting to show up but we need to look out a year to year and a half as the consensus is that there will be an economic decline during that time. Director Rubino shared a slide presentation. He stated that all indicators are pointing to a recession with a significant downturn starting in second quarter 2020. The decline will be severe at first but there is uncertainty as to how long it will last. The City revenue sources are sensitive to economic conditions. Income tax receipts are very sensitive but other resources are also going to see decline of varying levels based on the revenue sources. The big question is how much is it going to create revenue loss for the City, region, state, etc. The City does not use an economist so the best approach is to remain very aware of local and regional information and plug that into the basic forecast model that is typically used.

Director Rubino showed the 5-year forecast of the General Plan that was provided to Council in November of 2019 and adopted for 2020. The plan was very stable. Cash reserves remained above 30% without including the Budget Stabilization Fund. Director Rubino showed a chart of revenue and expenses over the next five year period and there is an expected slight growth in each category. There is also a slight imbalance which is always addressed through the normal budget development process.

Director Rubino went on to explain where the City budget would be with the recession as compared to where it was forecasted without the recession. The numbers he is using to predict future impact are preliminary because he does not have enough data yet to create a more precise picture. He is looking at trends to develop the projected impact. He compared the pre-recession forecast which assumes stable revenue sources and moderate expenditure growth with the potential revenue loss. The loss in revised revenue is going to require cost control measures. The City will lose revenue and cannot rely solely on the cash reserves in the General Fund. The City will need to look at budget cuts (cost mitigation). The City needs to find a way to continue delivering services at the level deemed necessary but with less budgetary exposure. There will likely be multiple years of operating deficits even with mitigation.

Director Rubino showed a graph of the previously projected revenue (pre-recession) compared to the revised recession level revenue. The difference in revenue will need to be covered by budget reductions, new revenue sources, or the utilization of cash reserves or a combination of all three options. In looking at the preliminary model the revenue loss could potentially reach \$50 million over the next five years. The City will need to begin adjusting General Fund budgets to offset the losses in the second quarter of this year. Councilman Zelwin asked to clarify that the \$50 million loss is a cumulative loss. Director Rubino stated that was correct based on this example but

the actual number may be less or may be more. This number was created using very basic assumptions. The shortfall will need to be addressed with corrective actions such as spending cuts or new revenue sources such as relief funding or federal assistance or proceeds from short term bridge financing. Director Rubino did not include any tax increases in his model or in any solution options. Even with budget cuts the City will be drawing down on the cash reserves. He also looked at cash flow and noted that there are occasions where some months the cash flow will be low, such as the months preceding income tax collection.

Director Rubino explained that the Covid-19 relief bill that was passed did include assistance for larger government municipalities but would not apply to Solon as it was for cities with population of 500,000 or more. There is no relief for smaller governments in the proposed Covid-19 fourth relief bill.

Some of the suggested cost mitigation activities would include targeted cuts to programs as well as across the board measures. The first phase of cost reductions will be implemented in this quarter. It is important to get an early start in order to make it easier moving forward and avoid making abrupt changes in 2021. If a cut is made then the assumption is that cut will be permanent until the economic conditions permit easing of the cuts. The General Fund reserves will be used to help cover the downturn but those funds need to be used in the most efficient manner.

Director Rubino took some basic parameters and created a simulated chart of the five year forecast. Income tax revenue is the largest revenue source for the City and the City will likely see at least a 10% drop in that revenue for 2020. 2021 may be worse or may be better but it is too early to predict. RITA did provide some basic preliminary numbers to project potential revenue loss, as well as the late revenue due to the filing date being pushed out from April to July. The money that would have historically come in April/May/June will now be pushed back for receipt in August/September/October which will put a strain on the monthly cash flow. Withholding will show some level of decrease but to what extent is not evident right now as it is hard to know what will transpire from the industrial companies. The revenue from retail businesses and restaurants will be down.

Councilman Zelwin asked how the numbers look taking into consideration the budget cuts. Director Rubino stated he looked only at a few minor budget cut items and the numbers provided are not the complete numbers. There will need to be additional reductions to the Operating Budget in the General Fund in order to get to a workable model. The focus of this is more on the trends than the specific numbers. The chart shows revenue reductions for 2020 and 2021 with slight rebounds starting over 2022-2025. This preliminary model accounts for a 16% reduction of revenue loss in 2020.

The City will need to aim high on mitigation measures since it is currently uncertain how much the revenue will actually fall.

Councilman Russo stated that he hopes Director Rubino's projections are optimistic because what he is reading and hearing from the economists that he follows is that the longer the shutdown continues the more permanent damage will be seen in the economy. Some of the estimates he is seeing is that if the economy is not opened up fully by the end of May there will be a 15% reduction in economic activity. And that will take a while to build back up. Director Rubino stated that everyone understands what the cause of the current downturn is - it is a supply shock when vast sectors of the economy were shut down. The problem is going to be that severe supply shock can cause pretty extensive demand shortages so even if things start up again there will be ripple effects through every sector of the economy and will take the local, regional, national and even global economy a while to climb out of that situation.

In terms of the City's Operating Budget and financial position, the rate at which the recovery happens is going to depend on the mix of how the local industry within the City recovers.

Councilman Russo stated it is important to act sooner rather than later and is looking for some concrete items to take action on within the next couple weeks.

Councilman Pelunis stated that a follow up meeting had been proposed for May 4 and wanted to make sure Director Rubino will have more data and revised information for that meeting so decisions can be made.

Director Rubino said he will continue to refine the model which includes a lot of factors of revenue but will not have a lot of revised numbers. He will improve the model with the information he is able to obtain. There will be a revised budget and forecast to review at that time.

Councilman Zelwin asked Mayor Kraus what he would like the Directors to do over the next week or so.

Mayor Kraus stated he and Director Rubino have been discussing this at length and have developed a three point plan. First will be to continue taking all the natural reductions as have been taken already. Then there will be a seven point plan that was already discussed with his staff at the weekly staff meeting. Director Stolarsky has looked at part time positions to determine those that are essential versus those that are non-essential. Full time employees will be expected to take vacation when they are not working a full work schedule. A hiring freeze has already been instituted for non-critical vacancies. Overtime will be halted except for the public safety forces.

Director Rubino is working with each department to reduce where possible. Some of the non-essential capital projects will be postponed and some heavy equipment purchases will be deferred. These actions are all being taken now as it will be too late to wait to look at this in a couple months and would then have a greater negative effect on 2021. There has also been discussion regarding a budget reduction plan for 2021.

Councilman Zelwin stated that Council will also look at the budget for areas they can make cuts to their costs.

Director Rubino will rely on monthly updates for budget forecasts and the information will be presented in the same format as was shown in these slides. This will include revenue outlook, targeted cuts, and across the board cuts so the residents have access to the details.

Councilman Pelunis asked Director Rubino to forward the information that RITA provided to the Council members. Director Rubino stated that they only provided a memo but will send the information to everyone.

Director Stolarsky stated she did not have any additional information to add to what Mayor Kraus already explained.

Councilman Zelwin thanked Director Rubino and Mayor Kraus for all the effort to put a plan in place and confirmed that this will require tough decisions and timing is critical so the sooner the better will help keep 2021 in a better position.

- Procurement Updates Pursuant to Ordinance 2020-55

Ordinance 2020-55 was the emergency procurement authority legislation that Council enacted. No purchases above \$25,000 were made. Figure 1 and 2 of the memo dated April 15, 2020 cover the details.

REPORTS TO COMMITTEE

- Monthly Financial Summary – March 2020

Director Rubino stated this is out of date already. There was some slowdown in March which was expected. He will take expenditure trends through April and will project

out. There has been moderated expenditure growth. Revenue prior to the pandemic was looking decent.

- Monthly Income Tax Collection Summary – April 2020

Director Rubino stated that collections showed a strong start through the first four months. 11% through March and 6.6% on a gross basis through April. Next month will be impacted not only by the economic slowdown but also the delayed filing date receipts.

- Quarterly Investment Report – First Quarter 2020

Director Rubino stated the investment strategy has been adjusted due to the declining interest rates. Because of how the portfolio was structured the returns are still reasonable but a lot of bonds are being called because rates continue to drop so reinvestment will be at much lower rates. Also, if the City starts drawing on cash reserves in the next year or two there will be less money to invest and there will need to be a larger buffer in terms of liquidity. The City has already responded by placing a good amount of cash in Star Ohio which is a state managed investment account which is currently making a decent rate of return, but that will change as the fund yield catches up with the interest rate trends. The goal is to make a reasonable amount in investment return but more importantly to preserve principle and have ample liquidity for cash needs. There will be a drop of investment increase of maybe 20% for this year but income tax is the bigger concern.

Councilman Zelwin stated that historically the Capital Budget has been cash funded with surplus from the Operating Fund so how will that impact 2020 and 2021. Director Rubino stated that the vast majority of General Capital such as equipment, facilities and service and safety equipment are funded from General Fund resources that are transferred to the General Capital Fund. The exception is that there is a safety and service levy that generates approximately \$470,000 per year to help fund service and safety equipment and that levy will continue. Property tax revenue should remain stable. The General Capital Plan specific to the Facilities budget was reviewed and some things have been reallocated, others will be delayed. In the General Capital Fund the money has already been moved from the General Fund and there is no need right now to move cash back from General Capital to the General Fund. The plan is to use the cash currently in the fund for critical projects so reserves can be held and other maintenance can be done without having to defer too many facility projects, capital repair or equipment purchases. The items in the full five year plan will need to be

completely reviewed. For 2021 there should not be much need to transfer from the General Fund to the General Capital Fund. Other sources like property tax revenue and NOPEC grant revenue will need to cover some capital projects. Director Rubino is not looking to jump into borrowing money at this point but maybe in 2022 or beyond when the economy is more stable and financing would be something to consider for the General Capital needs.

Income tax revenue is usually used to cover the majority of the Infrastructure Plan. 25% of total collections are allocated by voter approved referendum. There are also some federal highway dollars passed through for use. There has been a major project identified for deferral from 2020 to a later year. Director Rubino will provide a revised revenue estimate for planning purposes to guide what projects get moved out or scaled back.

Director Rubino believes there will be some form of stimulus measure passed at the federal level for infrastructure projects. Mayor Kraus stated he has discussed this as a possibility already with Representative Dave Joyce. Director Rubino stated that if federal funds could be used for non-state routes it would be most helpful.

Councilman Zelwin stated there is a proposed follow up meeting for May 4 so that action can be taken quickly. Councilman Pelunis asked that updated information be prepared for that meeting so recommendations can be developed and educated decisions can be made regarding what actions should be taken. Director Rubino stated that the General Fund Operating Budget for 2020 includes an Operating Budget just under \$42 million of which personal services costs are 64% (\$29.7 million). Non payroll expenditures were budgeted at \$12.2 million. It is important to help maintain the core critical services of the City while finding cost savings and targeted cuts. Mayor Kraus asked that all actions be consistent with the City reduction plan and provide the administration with flexibility. Mayor Kraus confirmed that action has already been taken to execute the stated seven point plan. Councilman Zelwin stated it is important to put through the legislation to support the plan with the appropriate budget modifications. Councilman Pelunis asked for a copy of the seven point plan.

Councilman Zelwin thanked Director Rubino for all the hard work to pull together this information in such a quick response.

ADJOURNMENT

Motion by Councilwoman Meany, second by Councilman Pelunis to adjourn the meeting at 7:08 PM

ROLL CALL: AYE: Meany, Pelunis, Zelwin
 NAY: None

Motion Carried

K Nelson, Secretary